



## CITY of NOVI CITY COUNCIL

**Agenda Item 3**  
**June 19, 2017**

**SUBJECT:** Approval of the advancement of funds from Water and Sewer Fund to the Capital Improvement Fund, subject to a reimbursement obligation.

**SUBMITTING DEPARTMENT:** Finance

**CITY MANAGER APPROVAL:** PA

**BACKGROUND INFORMATION:** mb

In August 2016 the voters approved a dedicated millage for capital improvement projects. The millage begins in July 2017 and runs for ten years. The 2017-2018 fiscal year budget approved by the City Council calls for approximately \$25 million in capital projects. It estimates the collection of \$3.4 million in property taxes from the levy, and requires borrowing of approximately \$17 million to fund the proposed capital projects.

The City reviewed alternatives for borrowing with the goal of minimizing the cost for borrowing to the Capital Improvement Fund (CIP) to maximize the amount of projects that could be completed. The City reviewed its available cash reserves and determined that there were sufficient reserves to fund this agreement, specifically in the Water and Sewer Fund. The Water and Sewer Fund has approximately \$40 million in cash reserves, with approximately half of that amount set aside for long-term capital reserves. The Water and Sewer Fund is currently earning approximately 2-2.25% on its cash reserves. The last borrowing by the City was in August 2016, where the City realized a net true cost interest rate of approximately 1.75% due to the City's outstanding credit rating of AAA. Due to several interest rate increases by the Federal Reserve since the last bond issue, and given the larger size of this borrowing, the current interest rate for a borrowing would be estimated in the 2.75-3% range, and closing costs on the borrowing would total about \$200,000.

The advancement of funds from the Water and Sewer Fund reserves to the CIP Fund, with a reimbursement obligation—including interest proposed to be at 3%—over a period of years would be beneficial to both funds. The Water and Sewer Fund would be able to take current reserve funds earning 2-2.25% and instead earn 3%. The advancement will have no impact on the Water and Sewer rates charged, or operations, except to help minimize future rate increases by increasing interest earnings from investments. The CIP Fund would save the costs of issuing debt and have the flexibility to draw down the advancement as needed and repay on a monthly basis, minimizing the overall cost of the advancement significantly.

The estimated annual repayment is \$2 million, and the annual property tax levy is estimated currently at \$3.4 million for fiscal year 2017-2018.

**RECOMMENDED ACTION:** Approve advancement of funds from Water and Sewer Fund to the Capital Improvement Fund, subject to a reimbursement obligation.

**CITY OF NOVI**

**COUNTY OF OAKLAND, MICHIGAN**

**RESOLUTION APPROVING ADVANCEMENT OF FUNDS FROM THE WATER AND SEWER  
TO THE CAPITAL IMPROVEMENT FUND SUBJECT TO REIMBURSEMENT**

Minutes of a Meeting of the City Council of the City of Novi, County of Oakland, Michigan, held in the City Hall of said City on \_\_\_\_\_, \_\_\_\_\_, at \_\_\_\_ o'clock P.M. Prevailing Eastern Time.

PRESENT:

Councilmembers \_\_\_\_\_

ABSENT:

Councilmembers \_\_\_\_\_

The following preamble and Resolution were offered by Councilmember \_\_\_\_\_ and supported by Councilmember \_\_\_\_\_.

**WHEREAS**, the City Council passed its annual budget for the 2017-2018 fiscal year, which included \$25 million in capital improvement expenditures in the Capital Improvement Fund (CIP) and borrowing of \$17 million to fund those projects; and

**WHEREAS**, the City seeks to minimize the overall cost of securing funds to maximize the amount of capital projects that can be completed using the CIP millage; and

**WHEREAS**, the City has identified long-term capital reserves in the Water and Sewer Fund that would be available for advancement to the Capital Improvement Fund without impacting the operations or rates charged to customers; and

**WHEREAS**, the advancement would favorably impact both funds by allowing the Water and Sewer fund to realize likely increased interest earnings on their long-term investment reserves and allowing the CIP Fund to save on the significant closing costs associated with an external borrowing and the lower interest costs to be realized by the monthly repayment structure of the reimbursement obligation; and

**NOW THEREFORE, IT IS THEREFORE RESOLVED** that:

1. The advancement of an amount not to exceed \$17 million dollars from the Water and Sewer Fund to the Capital Improvement Fund is hereby authorized, subject to the following:

- a. The amount will be disbursed on an "as needed" basis to fund budgeted capital projects within the CIP Fund beginning June 19, 2017.
- b. The advancement will bear a fixed interest rate of 3%, which represents the approximate market rate of interest the City would pay if it bonded independently to fund the CIP projects as of the date of this agreement.
- c. The reimbursement period will be not more than 10 years, with amounts to be repaid using the proceeds from the voter-approved CIP millage, which begins July 2017 and is approved annually for 10 years through July 2026.
- d. Repayments will be made on a monthly basis and will be made via internal transfers recorded by the Finance Department between the two funds.
- e. Principal payments on the outstanding loan will be straight line over the 10-year period beginning in July 2017 through June 2027.
- f. Early payoff of all or part of the advancement amount is allowable at any time.
- g. Payments will have first preference from the annual CIP millage before any other expenditures of the CIP Fund.

**BE IT FURTHER RESOLVED**, that to the extent the Water and Sewer Fund requires repayment of the outstanding principal at any time during this agreement for operations, capital, or any other need, the CIP shall repay the balance due within 90 days..

**AYES:**

**NAYS:**

RESOLUTION DECLARED ADOPTED.

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Cortney Hanson, City Clerk

**CERTIFICATION**

I hereby certify that the foregoing is a true and complete copy of a resolution adopted by the City Council of the City of Novi, County of Oakland, and State of Michigan, at a regular meeting

held this \_\_\_\_\_ day of \_\_\_\_\_, 2017, and that public notice of said meeting was given pursuant to and in full compliance with Act No. 267, Public Acts of Michigan, 1976, and that the minutes of said meeting have been kept and made available to the public as required by said Act.

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Cortney Hanson, City Clerk  
City of Novi